

IRS



Fact Sheet

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TAX TIME 2002

TAX PACKAGES

The Internal Revenue Service will send taxpayers more than 40 million tax packages and nearly 23 million computer-filing brochures this year. This mailout costs \$9.7 million for printing and nearly \$12.2 million for postage, for an average cost of 34.1 cents per item mailed. Most people will get their tax packages in early January. The IRS expects to receive more than 132 million tax returns in 2002, with e-filing reaching nearly 45 million returns.

The IRS does not mail tax packages to those likely to use a computer to do their own returns. Instead, it sends them a brochure that explains electronic filing and the Self-Select PIN (personal identification number) program. E-filers use a five-digit PIN plus the adjusted gross income from the 2000 tax return as an electronic "signature." The Self-Select PIN may be used by those preparing their own returns as well as by taxpayers using a paid preparer.

More than 15 million of the tax packages invite recipients to file by telephone. These TeleFile packages -- which contain no tax forms -- include Customer Service Numbers, used to "sign" the returns, and a "Tax Record" that helps the taxpayer prepare for the call and serves as a record of filing.

More than 2 million taxpayers will receive a Form 1040-V payment voucher in a separate mailing from their regular tax packages. The voucher helps ensure that their payments are accurately credited to their accounts. Previously, the IRS sent special tax packages that included the vouchers, but found it could cut costs by mailing the voucher separately and sending taxpayers the regular tax packages.

Although the name labels on the tax packages do not contain Social Security numbers (SSNs), taxpayers should use the labels on their forms to help ensure a correct mailing address. They must put their SSNs on the tax forms, taking care that each person's SSN matches the name on the Social Security card. Failure to do so may result in delayed refunds or lost tax benefits. Incorrect or missing numbers for taxpayers or dependents were the most frequent errors on returns the last few years.

Forms and publications are available from the IRS Web site at www.irs.gov, or by calling 1-800-TAX-FORM (1-800-829-3676). The IRS TaxFax offers forms and instructions by return fax -- call 703-368-9694 from a fax machine.

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TAXES: WHAT'S NEW FOR 2001?

- **Tax Rate Reductions** – The tax rates above 15 percent are lower by one-half a percentage point, reflecting a rate reduction that took effect July 1. Thus, these rates are 27.5%, 30.5%, 35.5% and 39.1% for 2001.

Taxpayers also have the benefit of a 10% tax rate on the first \$6,000 of taxable income (\$10,000 for a Head of Household; \$12,000 for a married couple). Most people received this benefit as an Advance Payment check during the year and need not do anything on their 2001 tax returns. Those who did not get the maximum amount (\$300, \$500, or \$600, depending on filing status) may be able to claim a Rate Reduction Credit on their 2001 returns. Dependents, who were not eligible for the Advance Payments, should check the instructions for a Tax Computation Worksheet that will give them the benefit of this 10% rate.

- **Capital Gains Rate for Five-Year Property** – The 10% maximum tax rate on capital gains dropped to 8% for property held more than five years. The 20% rate will drop to 18%, but only for property bought after 2000. Taxpayers have the option of treating investment property as though they sold and repurchased it at the beginning of 2001. They would thus begin a new holding period, with a view toward reporting future gains after 2005 as resulting from five-year property.
- **Child Tax Credit** – The maximum credit amount rises to \$600 per qualifying child. The credit may now be refundable for any taxpayer if it exceeds the tax liability, with the refund generally limited to 10% of the amount by which the taxpayer's earned income exceeds \$10,000. Some taxpayers with three or more children may qualify for a larger refundable amount.
- **IRA Deductions** – If covered by an employer retirement plan, these workers can deduct all their contributions to a traditional IRA: a single person or head of household with income under \$33,000; a married person filing jointly or a qualifying widow(er) with income under \$53,000. If their income is less than \$10,000 above these amounts, they may deduct some of their contributions.
- **Alternative Minimum Tax** – The exemption rises to \$35,750 for a single person or head of household, \$49,000 for a married couple or a surviving spouse.
- **Holocaust Victims** – Restitution payments to those persecuted by the Nazis or their allies are excluded from income and from other tax computations.
- **Standard Mileage Rates** – Taxpayers may deduct 34.5 cents a mile for all business miles driven during 2001. Taxpayers may deduct travel related to qualifying medical or moving expenses at a rate of 12 cents per mile.

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- **Student Loan Interest Deduction** – The deduction limit is now \$2,500.

INFLATION ADJUSTMENTS FOR 2001

The filing requirements, personal exemption, standard deduction and maximum Earned Income Tax Credit amounts are adjusted each year for inflation.

- The 2001 gross income **filing requirements** are:

Single	\$ 7,450
Head of household	\$ 9,550
Married filing jointly	\$ 13,400
Married filing separately	\$ 2,900
Qualifying widow(er)	\$ 10,500

Different amounts apply if the taxpayer or spouse is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return. There are also other specific situations which require the filing of a return, such as when the net earnings from self-employment are \$400 or more.

- The **personal exemption** amount for 2001 is \$2,900 -- \$100 more than last year. Higher income taxpayers may have to reduce the personal exemption amount they claim if their adjusted gross income exceeds:

Single	\$ 132,950
Head of household	\$ 166,200
Married filing jointly or Qualifying widow(er) . . .	\$ 199,450
Married filing separately	\$ 99,725

These taxpayers use a worksheet in the tax package to figure their exemption.

- The **standard deduction** amounts for 2001 are:

Single	\$ 4,550
Head of household	\$ 6,650
Married filing jointly or Qualifying widow(er) . . .	\$ 7,600
Married filing separately	\$ 3,800

Different amounts apply if the taxpayer or spouse is blind or is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return.

- The **Earned Income Tax Credit** amounts for 2001 are:

<u>Qualifying child</u>	<u>Income Limit</u>	<u>Max. Credit</u>	<u>Income for Max. Credit</u>
One	\$ 28,281	\$ 2,428	\$ 7,140 - 13,090
Two or more . .	\$ 32,121	\$ 4,008	\$10,020 - 13,090
None	\$ 10,710	\$ 364	\$ 4,760 - 5,950

The maximum amount of investment income a person may have and still be eligible for this credit increased to \$2,450.